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ENERGY CONSERVATION

Energy Savings Performance Contracting in Federal Civilian Agencies

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Resources, Community, and
Economic Development Division

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September 16, 1996

The Honorable Frank Murkowski
Chairman
The Honorable J. Bennett Johnston
Ranking Minority Member
Committee on Energy and Natural Resources
United States Senate

The Honorable Thomas Bliley
Chairman
The Honorable John Dingell
Ranking Minority Member
Committee on Commerce
House of Representatives

As the nation's single largest user of energy, the federal government has emphasized energy conservation through legislation and executive orders. Most recently, in the Energy Policy Act of 1992, the Congress authorized federal agencies to use energy savings performance contracting (performance contracting) as a tool for implementing energy conservation measures. Under performance contracting, a federal agency enters into a multiyear contract with a qualified energy service company, which then installs improvements in the agency's buildings. The company assumes all of the up-front capital costs and, in return, receives a portion of the annual savings attributable to the improvements for the duration of the contract. The company's portion of the energy savings is paid by the agency from funds that the agency would otherwise have used to pay its utility costs. Performance contracting allows the government to reduce its energy costs without appropriating funds and without incurring capital costs for energy-efficient improvements.

Besides authorizing federal agencies to use performance contracting, the Energy Policy Act of 1992 required the Department of Energy (DOE) to develop guidelines and regulations for civilian agencies to implement this approach. The act also requires GAO to review the implementation of performance contracting during the first 5 years after DOE issued its final regulations. These regulations went into effect on April 10, 1995. This report reviews the implementation of performance contracting by civilian agencies during the first year after DOE issued its final regulations, from April 10, 1995, to April 10, 1996. Specifically, it provides information on (1) the civilian agencies that have awarded energy savings performance

contracts, (2) the characteristics of the firms that DOE has listed as qualified for performance contracts, (3) the firms that submitted project proposals but were not awarded contracts and the reasons why, and (4) the responsibilities of the federal civilian agencies involved in performance contracting and the administrative costs they incurred through their involvement.

Results in Brief

Two federal civilian agencies awarded performance contracts during the period of our review. In July 1995, the National Park Service (Park Service), within the Department of the Interior, awarded a performance contract for about $2.3 million for energy-saving improvements at the Statue of Liberty and Ellis Island. The improvements include new lighting; new, more efficient motors for the air handling and pumping systems; and an energy management control system. In February 1996, the Federal Bureau of Prisons (Bureau), within the Department of Justice, awarded a performance contract for about $700,000 for a solar hot water system at a federal prison in Arizona. Because the specific technology to be installed under this contract was available from only one firm, only that firm was considered and awarded the contract.

The firms that DOE had listed as qualified for performance contracts varied widely in their characteristics—in the number of employees, net worth, sales, and years of experience as an energy service company. The firms also varied in the maximum dollar amount of the contract they would consider and in the geographical area where they would work.

The Park Service received three offers for its performance contract. The selected firm was determined as providing the most comprehensive energy-efficient proposal at the best value. The two rejected offerors scored lower on the technical evaluations and were not determined by the Park Service to be the best value to the government. The Bureau contract had one available offeror capable of implementing the specific proposed solar technology.

Contracting agencies, such as the Park Service and the Bureau, are responsible for developing solicitations, mailing requests for proposals to prospective offerors, and evaluating contract proposals. DOE, the Federal Energy Management Program (FEMP), and three of DOE's national laboratories provide technical assistance to the contracting agencies. Because the Bureau, FEMP, and the Park Service do not have accounting systems that can track the costs of their work on individual contracts, we

found their administrative costs difficult to quantify. We did, however, obtain estimates from DOE, the Park Service, and/or the Bureau of $246,000 for work on the Park Service's contract and $70,500 for work on the Bureau's contract. These estimates include the administrative costs for DOE's laboratories.

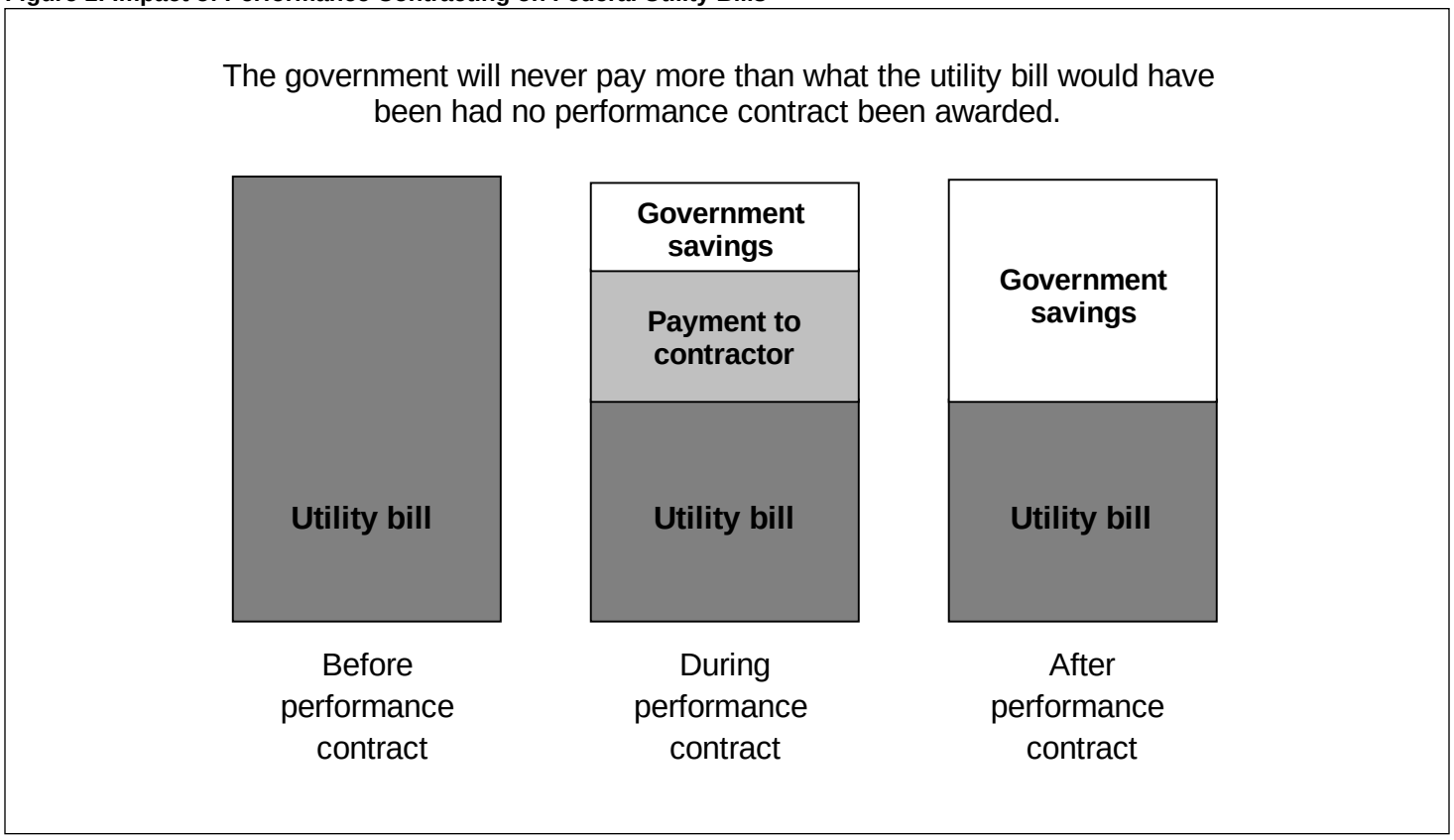
Background

The Energy Policy Act of 1992 and Executive Order 12902 require federal agencies to reduce their consumption of energy in federal buildings. The act set a goal for the agencies of lowering their consumption (measured in British thermal units[1] per square foot) by 20 percent below fiscal year 1985 levels by fiscal year 2000. The executive order, issued in March 1994, increased this goal to 30 percent by the year 2005. Because performance contracting enables federal agencies to implement energy efficiencies at no capital cost to the government, the act directed the agencies to use this approach and required DOE to establish methods and procedures for the agencies to use in performance contracting. DOE's performance contracting procurement regulations went into effect on April 10, 1995.

Performance contracting presents an alternative to appropriations as a means of financing energy-saving capital improvements for federal facilities. Under this approach, a federal agency may enter into a multiyear contract with an energy service company, which pays all of the up-front costs of implementing the improvements. These costs may include identifying a federal building's energy requirements and acquiring, installing, operating, and maintaining energy-efficient equipment. In addition, the contractor is responsible for training government personnel in operating and maintaining the energy conservation equipment and measuring the energy savings. In exchange, after the contracting federal agency accepts the newly installed equipment, the contractor receives a share of the savings—in both utility and related operations and maintenance costs—resulting from the improvements until the contract expires. After that time, the federal government retains all of the savings and equipment. Figure 1 shows how performance contracting pays for energy-saving improvements and lowers federal agencies' energy costs.

[1]A British thermal unit is the quantity of heat required to raise the temperature of 1 pound of water 1 degree Fahrenheit.

Figure 1: Impact of Performance Contracting on Federal Utility Bills



Note: This figure does not reflect any savings in related operations and maintenance.

Source: GAO's adaptation of an illustration from DOE.

Under DOE's performance contracting procurement regulations, the contracting federal agency is to prepare a solicitation for prospective offerors using a model developed by DOE. Although the solicitation can be sent to any firm, under the Energy Policy Act of 1992, the contracting federal agency can negotiate only with firms designated as qualified by DOE or determined to be qualified by the contracting agency using the same selection methods and procedures as DOE. At DOE, a qualification review board evaluates a firm's application package to determine whether the firm is qualified.

At the time DOE developed its performance contracting procurement regulations for federal civilian agencies, the Department of Defense (DOD) had already developed a similar policy for the military services based, in part, on its own legislative authority.[2] In addition, DOD had already developed its own list of qualified firms.[3] Consequently, DOE decided to accept as qualified any firm approved by DOD. If a firm has been approved by DOD, DOE does not evaluate the firm's qualifications but instead requests a copy of the application package that the firm sent to DOD and checks to ensure that the firm is, in fact, on DOD's list of qualified firms.

DOE's performance contracting procurement regulations direct federal agencies to consider using DOE's model solicitation to the maximum extent practicable. The model solicitation establishes criteria for evaluation and selection, including not only the cost of the proposed work but also the firm's contracting experience and technical expertise. Using the model solicitation, the contracting federal agency rates proposals against the various criteria for firms responding to the solicitation and selects the firm whose overall rating reflects the best value for the government.

According to FEMP, the benefits of performance contracting for the federal government generally include (1) reducing energy costs, (2) improving energy efficiency and helping agencies meet their energy savings requirements, (3) eliminating the costs of maintaining and repairing aging or obsolete energy-consuming equipment, (4) making contractors rather than the government responsible for operating and maintaining energy-saving equipment, and (5) creating an incentive for contractors to develop highly efficient improvements by linking their compensation to the savings achieved through their work.

Civilian Agencies' Performance Contracts

As of April 10, 1996, two civilian agencies, the National Park Service and the Federal Bureau of Prisons, had each awarded a performance contract using DOE's April 10, 1995, performance contracting procurement regulations.[4]

[2]DOD's authority is contained in the National Defense Authorization Act for Fiscal Year 1991.

[3]DOD approved 20 firms for its 1995 list of qualified firms and 52 firms for its 1996 list. DOD's program year runs from January 1 to December 31. DOD completes its single, annual application review and publishes its approved list before DOE starts the cycle for updating its list on February 1. DOE, however, accepts applications continuously and reviews them throughout the year.

[4]In addition, as of August 12, 1996, one other civilian agency, the Department of State, had awarded a performance contract for its Washington, D.C., headquarters, according to FEMP. However, because this contract was recently awarded, we did not include it in our review.

The National Park Service's Contract

The Park Service was the first federal civilian agency to award a performance contract under DOE's performance contracting procurement regulations. This contract, for about $2.3 million in energy conservation measures at the Statue of Liberty National Monument and Ellis Island, was awarded on July 25, 1995. The contractor is to reduce energy consumption at both Ellis and Liberty islands by installing energy-efficient interior and exterior lighting, highly efficient motors for the air handling and pumping systems, and an energy management control system. The contractor is to provide, finance, install, and maintain the equipment for 15 years in exchange for a portion of the energy savings realized each year. After the Park Service accepts the equipment, the contractor will, for the duration of the contract, receive compensation from the Park Service from funds in its budget that would otherwise have gone to pay its utility bill. According to the contract, the contractor will be reimbursed for its costs, which include capital and financing costs and a profit, in accordance with a multiyear schedule contained in the contract. The contractor is also to receive a rebate[5] of about $1.1 million from the local utility—Public Service Electric and Gas Company—in New Jersey after the equipment included in the rebate program has been installed and its performance has been verified. This rebate made the project "economically attractive" for the contractor, according to the Park Service's contracting officer. The Park Service, meanwhile, is guaranteed at least $1 annually and, at the end of the 15-year contract period, will acquire energy-saving equipment valued in 1995 at about $1.2 million, thereby eliminating the need to obtain appropriations for this capital equipment. All savings in excess of $1 will also go to the agency. For example, the total savings to the agency during the first year are expected to be about $27,000, according to an official at DOE's National Renewable Energy Laboratory (NREL).

The Park Service began the performance contracting process by preparing a solicitation for prospective offerors. In this solicitation, it identified the terms of the contract and included the criteria for evaluating proposals and the measures that the Park Service believed would increase the facilities' energy efficiency. The Park Service sent the solicitation to about 160 prospective firms and received proposals from 3 of them. Two of the three were on DOE's list of qualified firms when they submitted their proposals; one was not. The Park Service reviewed but did not select the proposal from the firm that was not on the list. Had the Park Service wanted to select that proposal, it could not have done so until the firm had been approved for DOE's list.

[5]The rebate in this case is a stream of payments from the utility for the installation and performance of specific energy-efficient equipment. The rebate offsets the capital costs of the equipment installed.

For 11 months after receiving the proposals, the Park Service discussed them with the offerors, exchanged information, and amended the solicitation to reflect the results of mutual decisions or of decisions made by the Park Service to add some items or delete others that had proved infeasible. The offerors modified their proposals in response to the amended solicitation, and an evaluation team, consisting of staff from the Park Service and advisers from DOE's Lawrence Berkeley National Laboratory (LBNL) and NREL, reviewed the final proposals using technical and cost criteria. The Park Service assigned the highest technical score to the proposal offered by CES/Way International, Inc., of Houston, Texas, determining that it was the "best value" and "most advantageous to the government."

According to Park Service staff, the Park Service's performance contract is unique not only because it was the first awarded under DOE's April 1995 final regulations but also because it involved work on nationally significant structures that warranted special consideration. For example, the buildings' historic or aesthetic qualities had to be preserved, and the work had to be scheduled so as not to interfere with the museums' normal operations.

We discussed the practicality of the contract provision that guarantees that the government will receive $1 in energy savings and all energy savings exceeding the guaranteed amount during our visit to Ellis Island. Some of the on-site Park Service staff and the on-site CES/Way representative we interviewed said that the arrangement did not provide a strong incentive to the contractor to maximize the potential savings available at the facility. The NREL staff person who helped DOE develop the model solicitation said that FEMP and NREL staff had discussed the feasibility of including language in the solicitation that would have created such an incentive, giving the contractor a share in any savings exceeding the guaranteed amount. They did not include the language, the NREL staff person explained, because they were unable to develop criteria specifically for evaluating proposals containing an incentive option. FEMP and NREL staff agreed to reconsider an incentive option and acknowledged that such an option, where and when applicable, could bring further benefits to both the government and the contractors.

The Federal Bureau of Prisons' Contract

On February 13, 1996, the Bureau awarded a 20-year performance contract for about $700,000 for a solar hot water system at a federal prison in Phoenix, Arizona. In part because the project would demonstrate the

viability of solar technology to reduce the use of conventional energy and would therefore support both FEMP's mission to assist agencies in reducing their use of conventional energy and NREL's mission to promote renewable energy technologies, a cooperative research and development agreement was used to develop the proposal, according to an NREL official who assisted with the project. Since the specific solar technology to be installed under this performance contract was available from only one source, the NREL official said, only one firm was considered for the award. The contract was awarded to the Industrial Solar Technology Corporation of Golden, Colorado. Construction for the project is not scheduled to begin until the fall of 1996, according to an official in the Bureau's Facilities Management Branch.

Characteristics of Firms on DOE'S List of Qualified Firms

For 1995, DOE received 97 applications from 88 applicants for inclusion on a list of qualified firms, which the Energy Policy Act of 1992 directed DOE to prepare. In total, 58 firms were found to be qualified, including 20 that DOD had previously approved. Ten of the 88 were not found to be qualified.[6] An additional 20 applications were pending at the end of the 1995 application cycle. To identify the characteristics of the qualifying firms, we reviewed the application files that DOE was able to provide at the time of our review.[7] Some of the applicants whose files we reviewed did not respond to all of DOE's requests for data.

Our review of the application files that were available for 53 of the 58 approved firms revealed substantial differences among these firms. Under the Small Business Administration's criteria, 25 of these firms were classified as small and 28 were not classified as small. Two classified themselves as disadvantaged and 51 did not classify themselves as disadvantaged. Three classified themselves as woman-owned and 50 did not classify themselves as woman-owned. The average number of employees[8] for the 51 approved firms providing this information ranged from 6 to 54,800; the median number was 55. The net worth of the 45 approved firms providing this information ranged from $100,000 to over $3.9 billion; the median figure was about $2.3 million. The average sales of

[6]For the 1996 cycle, which runs from February 1, 1996, to January 31, 1997, DOE had approved 85 firms, as of August 12, 1996.

[7]At the time of our review, DOE was unable to provide the files for eight applicants, including five that were approved, because the files had been misplaced when FEMP changed support contractors, according to FEMP officials.

[8]Applicant firms are required to provide their average number of employees for the four preceding calendar quarters.

the 48 approved firms providing this information ranged from $10,000 to $6.4 billion; the median figure was $5 million. Some of the firms with the largest average number of employees, net worth, and/or average sales were utility companies.

In other respects, the approved firms also differed substantially from one another. For the 53 whose files were available, the number of years' experience as an energy service company ranged from 2 years to 179 years; the median number of years was 12. For the 52 firms providing this information, the maximum dollar amount of the contract that a firm would accept ranged from $1 million to $100 million; the median amount was $20 million. Eleven firms indicated that they would accept a contract of any amount. Of the 53 firms, 39 indicated that they would apply for performance contracts nationwide while 14 indicated that they would work only in specific regions.

Rejected Proposals for Performance Contracts

Consistent with the Energy Policy Act of 1992, DOE's April 1995 performance contracting guidance permits contracts to be awarded on the basis of the best value to the government rather than the lowest price. Consequently, the Park Service's evaluation board, after reviewing each of three offerors' proposals, selected the firm whose technical proposal represented the best value to the government. The board determined that this firm provided the most comprehensive and technically sound energy-efficient proposal. One of the three firms that submitted a proposal to the Park Service was not on DOE's list of qualified firms when it submitted the proposal.

As noted earlier, an offeror does not have to be on DOE's list of qualified firms at the time it submits a proposal. The firm must submit an application to DOE in time for the qualification review board to review and, if appropriate, approve it before contract negotiations begin.

For the Bureau contract, only one firm was considered because the specific solar technology to be used was available from only one source, according to an NREL official.

Federal Agencies' Responsibilities and Administrative Costs

The contracting agencies, such as the Park Service and the Bureau, are responsible for developing solicitations, mailing requests for proposals to prospective offerors, and evaluating contract proposals. DOE, FEMP, and three of DOE's national laboratories provide technical assistance to the

contracting agencies. Quantifying the administrative costs that these federal agencies have incurred through their involvement has been difficult because the agencies, in general, do not have accounting systems that can track the costs of their work on individual contracts. These costs include, for example, salaries and travel for the full range of activities needed to successfully enter into a performance contract.

Federal Agencies' Responsibilities

Performance contracting involved the Park Service and the Bureau in a variety of administrative activities, such as developing solicitations and mailing them to prospective offerors, placing notices in the Commerce Business Daily, conducting site tours for prospective offerors, evaluating contract proposals, and negotiating with the successful offeror.

DOE's agencies—FEMP and up to three of the national laboratories, NREL, LBNL, and the Pacific Northwest National Laboratory (PNNL)—provided technical assistance to the contracting agencies. They helped to prepare solicitations, evaluate firms for DOE's list of qualified firms, evaluate project proposals, develop rules and regulations, and finalize contract awards. In addition, FEMP trains staff from federal agencies interested in entering into performance contracts.

FEMP has acted as a facilitator, linking the federal agency seeking energy-saving improvements with the laboratory that can best assist the agency. To link the two, FEMP prepares a work order for the laboratory and sends it to a central location—the field office in Golden, Colorado—to be assigned. This work order is a task order or a modification to a master contract already in place with the laboratory.

According to FEMP and NREL staff, NREL assisted in developing the model solicitation for energy savings performance contracting, which is available for any agency to use in developing its performance contract. Specifically, NREL provided technical assistance to both the Park Service and the Bureau in developing and/or evaluating their individual performance contracts.

LBNL led the development of new guidelines for federal energy projects, which can be used to measure and verify the energy and cost savings associated with federal agencies' performance contracts.[9] LBNL staff conduct the metrics portion of the performance contracting training

[9]Measurement and Verification (M&V) Guideline for Federal Energy Projects, DOE, FEMP (DOE/GO-10096-248, Feb. 1996).

provided by FEMP. Specifically, LBNL provided an adviser to the technical board for the Statue of Liberty/Ellis Island contract's evaluation process.

PNNL staff performed the baseline energy-use audits for the Park Service's performance contract.

Federal Agencies' Administrative Costs

The federal agencies that worked on the Park Service's and the Bureau's performance contracts estimated their administrative costs because they do not have accounting systems that can track the costs of their work on individual contracts. We obtained estimates from DOE, the Park Service, and/or the Bureau of about $246,000 for work on the Park Service's contract and $70,500 for work on the Bureau's contract. These estimates include the applicable costs for DOE's national laboratories.

Costs of the Park Service's Contract

The Park Service was unable to provide exact data on the administrative costs associated with its performance contract. The staff who worked on this contract also had other responsibilities, and their record-keeping process did not provide for charging time to specific performance contracting tasks. The Park Service did, however, provide the number of staff that worked on the contract and their estimated salary costs. A Park Service official estimated salary costs of $87,559 for the 12 staff who worked on the contract during 1993-96. In addition, he estimated other administrative costs of $5,000, for travel, training, mailing, telephone, and paper costs. According to this official, the costs for subsequent performance contracts would probably be lower because the agency would benefit from its experience with the first contract. Department of the Interior officials stressed that a team needs to be formed to assist civilian agencies in developing and implementing performance contracts, which are much more complex than other, more traditional forms of contracting.

We obtained administrative cost estimates for the three laboratories that assisted with this contract. NREL staff estimated total costs of about $17,000 for two NREL staff for about 2 to 3 months each and one NREL technical consultant for about 9 days. This estimate includes travel expenses. NREL was able to estimate its costs for the Park Service's contract because several staff worked for extended periods with the Park Service and FEMP in developing the solicitation, serving on the evaluation panel for the project proposals, and providing assistance to the Park Service at the facility. The cost of PNNL's assistance in performing energy audits was $125,000, according to FEMP staff. An LBNL official estimated

administrative costs of about $2,500, including travel costs, for the one staff person who participated on the evaluation panel for this contract.

FEMP officials noted that FEMP's accounting system is not set up to track specific project support costs because many of FEMP's activities support a number of agencies simultaneously. FEMP officials, however, estimated administrative costs for the three staff persons associated with this contract at $8,900, including travel costs. FEMP staff, for example, assisted the Park Service by providing a list of firms to which the solicitation could be mailed.

Costs of the Bureau's Contract

According to Bureau officials, the Bureau's administrative costs are estimated because tracking these costs would be labor intensive. The Bureau estimated that it incurred costs of $17,500 for salaries for two staff, related travel expenses during fiscal years 1993-96, and other miscellaneous contract-related administrative expenses.

NREL estimated that its administrative costs for the Bureau's contract were about $53,000, including travel expenses. These costs covered the work of three staff who visited the site and/or helped to prepare the solicitation, develop baseline data, and review the technical proposal.

FEMP had no administrative costs directly associated with this contract.

Agency Comments

We transmitted a draft of this report to the Secretary of Energy for review and comment. We met with officials of the Department, including the Director of FEMP, who generally agreed with the report's findings. They provided technical and editorial revisions, which we incorporated as appropriate. We also transmitted a draft of this report to the Secretary of the Interior for review and comment. We met with officials of the Department, including the National Park Service's Deputy Superintendent of the Statue of Liberty/Ellis Island, who agreed with the report's findings. They provided technical and editorial revisions, which we incorporated as appropriate. We transmitted pertinent sections of a draft of this report to officials with the Department of Justice's Federal Bureau of Prisons for review and comment. The Bureau suggested wording concerning its tracking of contract costs, which we incorporated as appropriate.

We performed our work from December 1995 through August 1996 in accordance with generally accepted government auditing standards.

Appendix I provides more information on our objectives, scope, and methodology.

As arranged with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 7 days after the date of this letter. At that time, we will send copies to the appropriate congressional committees, the Secretary of Energy, the Secretary of the Interior, the Attorney General, and other interested parties. We will also make copies available to others on request.

Please call me at (202) 512-3841 if you or your staff have any questions. Major contributors to this report are listed in appendix II.

Victor S. Rezendes
Director, Energy, Resources,
and Science Issues

Contents

Abbreviations

DOD	Department of Defense
DOE	Department of Energy
FEMP	Federal Energy Management Program
LBNL	Lawrence Berkeley National Laboratory
NREL	National Renewable Energy Laboratory
PNNL	Pacific Northwest National Laboratory

Objectives, Scope, and Methodology

The Energy Policy Act of 1992 requires GAO to review the 5-year pilot program for energy savings performance contracting. As agreed with congressional staff, we provided information on

- the number of performance contracts awarded by civilian agencies, from April 10, 1995, to April 10, 1996, under DOE's final performance contracting procurement regulations;
- the characteristics of the firms on DOE's list of the firms qualified for performance contracting;
- the firms that submitted project proposals but were not awarded contracts and the reasons why; and
- the responsibilities of the federal civilian agencies involved in performance contracting activities and the administrative costs they incurred through their involvement.

To determine the number of energy savings performance contracts awarded during the first year after the issuance of DOE's final regulations, we contacted DOE's FEMP office and reviewed its data files of awarded contracts. We did not review any energy-related performance contracts awarded before DOE issued the final regulations.

To determine the specifics of the Statue of Liberty/Ellis Island contract, we visited Liberty and Ellis islands and interviewed Park Service staff, including the superintendent, the professional services division chief, and the contracting officer. In addition, we interviewed the awardee contractor and representatives of the participating utility company. For information on the Bureau's performance contract, we contacted Bureau and NREL staff.

To determine the number and characteristics of the applicant firms and those approved for DOE's list of qualified firms and these firms' characteristics, we reviewed the applications submitted to DOE from April 10, 1995, through February 26, 1996. These files were maintained by a DOE contractor—Enterprise Advisory Services, Inc./Advanced Sciences, Inc.—that assisted with the review and evaluation process for the list of qualified firms. We obtained information from the Park Service on the reason why it rejected qualified offerors' project proposals.

To determine the responsibilities of the federal civilian agencies involved in performance contracting and to gather relevant administrative cost data, we obtained information from the awarding agencies (the Park Service and the Bureau), FEMP, and NREL.

Major Contributors to This Report

Resources, Community, and Economic Development Division Washington, D.C.	Bernice Steinhardt, Associate Director Peg Reese, Assistant Director Charles Hessler, Evaluator-in-Charge Nancy Bowser
Office of the General Counsel	Jackie A. Goff, Senior Attorney

Related GAO Products

Energy Conservation: Contractors' Efforts at Federally Owned Sites (GAO/RCED-94-96, Apr. 29, 1994).

Energy Conservation: Federal Agencies' Funding Sources and Reporting Procedures (GAO/RCED-94-70, Mar. 30, 1994).

Energy Conservation: DOE's Efforts to Promote Energy Conservation and Efficiency (GAO/RCED-92-103, Apr. 16, 1992).

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